

The Decline of Employment Among Older People in Britain



Work, and opportunities for work, are central to Government plans for welfare reform. Nigel Campbell has looked in detail at the dramatic fall in older people's employment, and assesses why this has happened.



Two-fifths of men aged between 55 and 65 are now without work, compared to one-fifth in 1979. Another 800,000 men aged over 50 would be in work if employment rates had not fallen between 1979 and 1997.



Men of all ages are less likely to be in work than they used to be, but the falls have been largest for older men. Female employment has risen substantially overall, but women over 55 have not shared in this increase.



Falling employment among older men seems to be part of a continuing trend, rather than simply affecting one unfortunate generation. Successive generations of men are less likely to be in work at age 50 (and at 40 and 60).



Older people are most likely to leave the labour market if they either (a) have wages in the bottom quarter of the distribution, or (b) have wages in the top half but are also members of an occupational pension scheme.



Few older people return to work after leaving the labour market. On current trends, 6-7 per cent of men aged 45-49 (more than half of men of that age without jobs) could never work again, or at least not for a complete year.



Voluntary decisions to retire early are not the major causes of the changes (although they are for some). There is no single explanation, but we can say that:

- much of the decline reflects lower labour supply following decisions which were either involuntary or involved a constrained choice;
- occupational pensions are associated with lower employment rates among people in their 40s, 50s and 60s; and
- there has been a relative shift in the demand for labour against older men.

Further information

This CASEbrief summarises findings from CASEpaper 19, *The Decline of Employment Among Older People in Britain*, by Nigel Campbell. Copies are available free of charge from Jane Dickson, CASE, at the address below, or can be downloaded from our internet site: <http://sticerd.lse.ac.uk/Case/>.

Chart 1 shows that employment fell substantially, for men of all ages, between 1979 and 1997 (similar points of the economic cycle). Older people have been particularly affected. The fall in employment among men aged between 50 and 65 – equivalent to 800,000 fewer jobs – is larger than the fall among “prime-aged” men (aged 25-50), even though there are twice as many prime-aged men as there are men aged 50-65. People in their 60s have always been less likely to work than those in their 50s. Significantly, however, this effect now starts earlier – from about age 50, rather than age 55.

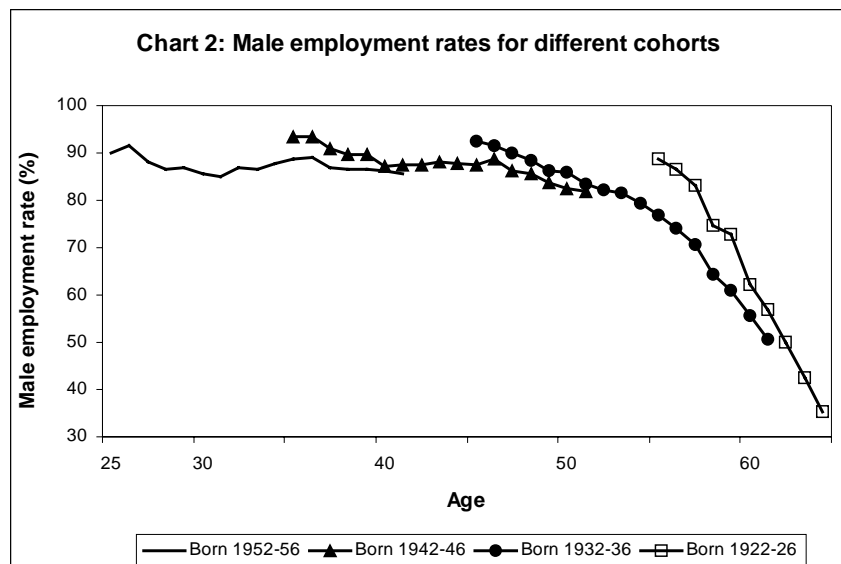
Women are now much more likely to be in work than they used to be. Older women, however, have not shared in the general rise in female employment. Women in their late 20s and early 30s used to be much less likely to be in paid work than other women under the age of 50. That is no longer true.



The assertion that the number of jobs is fixed – the “lump of labour fallacy” – is untrue. In an open economy, trading internationally, the number of jobs in a dynamic labour market depends on the number of people competing effectively for jobs. Fewer older people participating in the labour force, therefore, does not mean that there are more jobs for people who are currently unemployed.

Is falling male employment a one-off or a continuing problem? Will the trend reverse on its own?

The decline in male employment is part of an ongoing trend, with each successive generation of men more disadvantaged (in terms of lower employment rates) than previous ones (Chart 2). This is not a problem affecting only one unfortunate generation of relatively older men. Men born later are, at any age, less likely to be employed than people born earlier were at the same age. This implies that the trend of lower employment among older men is not likely to reverse of its own accord. Furthermore, regional data imply that, while deep recessions clearly harm employment, economic recovery alone may not be sufficient to reverse this trend.



What happens to individual older workers?

The decline in employment among older people is linked to more people leaving work earlier and to fewer returning to work after leaving their jobs.

The two groups most likely to leave the labour market are: (a) people with wages in the bottom quarter of the distribution, and (b) people with wages in the top half but who are also members of an occupational pension scheme. Someone in their late 40s or early 50s and earning above-average wages is 50% more likely to leave the labour market if they have an occupational pension than without one. People with above-average wages but no occupational pension have the lowest risk of being displaced.

When older people leave work, few return to work unless they move immediately to another job. A person's chance of returning to another job falls the longer they have been out of work. Furthermore, a person is less likely to remain in work (if they find it) after spending time out of the labour market: nearly half of those who were out of work in 1990 and were observed in work over the next six years, were out of work again by 1996.

Instead, older people without work are more likely to become progressively less attached to the labour market, reducing in turn the likelihood of returning to work in the future. About half of those who were unemployed in 1990 were either long-term sick or retired (or, among women, looking after their family) by 1996. Over the same period, one-third of the long-term sick had retired.

The fall in male employment has been accompanied by a corresponding increase, not in unemployment, but in economic inactivity. These people are therefore not available for and/or not seeking work, which means that they are unlikely to be competing for jobs.

Reasons for the changes in older people's employment

There is no single explanation for the decline in older workers' employment. Much of the fall is due to lower labour supply following involuntary decisions or constrained choices. Factors associated with lower employment rates among older workers include:

- **occupational pensions**, especially among people with higher than average wages. The cost to employers of salary-related pensions increases, often substantially, as people near retirement age, providing incentives on employers to encourage their employees to retire early. Occupational pensions could also reduce labour supply, either voluntarily or (e.g. if accepting an early retirement package when redundancy is anticipated) as a result of constrained choice.
- a **shift in labour demand against older men**. Older men have faced falls in both relative wages and employment.
- Relatively few – 5% of people aged 45-69 – believe they have suffered **age discrimination** in job application(s). This suggests that age discrimination – in the sense of unequal treatment of people who could do the job equally well – is not likely to have been the major cause. However, the arguments against age discrimination hold even if, as this evidence suggests, it is not widespread.

- Later generations are on average richer than their predecessors, so theory would suggest that voluntary early retirement might rise over time (although increased life expectancy would point the other way). While there may have been an increase in the number making **voluntary, unconstrained decisions to retire early**, this is at best a limited description of the story.
- There are several reasons why much of the change in employment reflects **constrained choices or involuntary decisions which reduce labour supply**:
 - People making a voluntary decision would be likely to move straight from employment to retirement and not move, as many in fact do, through periods of unemployment and/or long-term sickness.
 - Older men were more likely to be working in shrinking industries. Accepting early retirement may be a constrained choice for them.
 - People who have been displaced typically face a “pay gap” between their previous wages and their (significantly lower) potential earnings in a new job. People who do not re-enter the labour market because of this pay gap – larger for older workers – are not making an unconstrained choice.
 - Higher levels of wages are associated, in the absence of occupational pensions, with lower displacement rates. Voluntary decisions are unlikely to have caused substantial falls in employment among low-paid men.
 - The number of people affected – with the proportion of older men out of work increasing from one-fifth to two-fifths – is too large to have been caused solely by more individuals deciding voluntarily to retire early.

Conclusions

The main findings of this research are that:

- employment has fallen sharply among men, especially men over the age of 50;
- economic inactivity, much more than unemployment, has increased at the same time;
- the trend seems to be continuing, with each successive generation more disadvantaged than its predecessors;
- economic recovery will not solve the problem on its own, according to regional data;
- two groups of older workers have been most likely to leave the labour market. One group consists of people in the bottom quartile of the wage distribution. The other is people in the top half but who are members of an occupational pension scheme.
- few older people return to work after leaving the labour market. Indeed, older people without a job are more likely to become less attached to the labour market over time, moving from unemployment to long-term sickness or retirement or from long-term sickness to retirement.

About the research

The research reported here was carried out while Nigel Campbell was a User Fellow at CASE, on leave from HM Treasury. He is grateful to the ESRC and CASE for financing the Fellowship, to the Data Archive for making available data from the Labour Force Survey and the British Household Panel Survey, and to the ESRC Research Centre on Micro-social Change at the University of Essex for originally collecting the BHPS data. The views expressed are those of the author alone.